COMMENTARY

EXPOSURES AND ATTRIBUTION

Our theme of core growth names positively contributed to the fund performance and we benefited from being long some CWN, where there was takeover speculation and some of our infrastructure names performed well. We had a large loss in DLX where we were short in anticipation of a downgrade. The downgrade came in May. However, the stock was bid for by Nippon Paint prior to this update. DLX was our largest short in the portfolio. We are reminded that a bad outcome does not necessarily reflect a bad decision making process. And we feel this was just one of those events that can happen.

PORTFOLIO OPPORTUNITIES AND RISKS

We have a number of long and short thematic opportunities building in the portfolio following a period of lower risk exposure for the first quarter of 2019. From a macro perspective we are building exposure in S&P500 and ASX200 Index puts. With some optionality in the macro book we will be more aggressive on net delta exposure. Gross exposure is picking up again in the portfolio having been very low for several months. We are building short trading positions in the banks. If we look at the experience of bad debts in the state of Western Australia and extrapolate what we may expect in NSW and Victoria, it seems this risk is not priced in currently. We have increased exposure to situations which are lower risk and have some optionality. These include a risk arb position in KDR. We have also initiated several positions where there has a been a market event that has adversely moved the stock price and we think the market has over reacted and missed the underlying opportunity. One example is AMI, which not long ago was loved and trading above 90c. Following a poor quarterly and the CEO leaving, the stock traded back to mid 50's. We also initiated a long in Graincorp following the failed takeover and large downgrade on lower crop and unusual trading dynamics in the barley market.

PERFORMANCE METRICS

	From May 2013
Annualised returns	24.19%
% Positive months	66.20%
Average monthly return	1.90%
Avg +ve monthly return	3.92%
Avg -ve monthly return	-2.07%
Best month	13.07%
Worst month	-6.09%
Largest drawdown	-11.61%
Longest drawdown (mths)	13
Up Capture ratio	33.8%
Down Capture ratio	-212.0%
Sortino	3.71
Sharpe ratio	1.67

CUMULATIVE FUND PERFORMANCE (2013-current)

Legend: MSCI World — ASX Accum 200 — Arnott
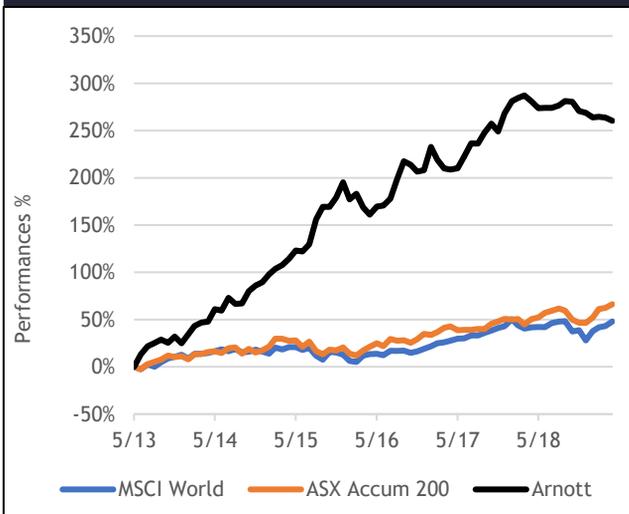
MONTHLY SUMMARY METRICS

NET RETURN	AV GROSS EXP	AV NET EXP
-0.95%	57.11%	10.14%

STRATEGY HISTORICAL PERFORMANCE (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2013						13.07	7.63	2.97	2.82	-2.69	5.23	-5.25	25.00
2014	7.61	6.56	2.43	0.77	8.87	-0.93	8.46	-3.78	0.34	7.78	3.24	1.92	51.59
2015	4.46	2.88	1.99	3.19	4.12	-0.52	3.44	11.47	5.23	0.00	3.67	5.72	55.80
2016	-6.09	2.14	-5.17	-2.83	3.30	0.40	2.69	7.49	6.29	-1.15	-2.34	0.48	4.33
2017	7.99	-4.01	-2.94	-0.34	0.43	4.08	4.21	-0.02	3.37	2.79	-2.32	5.51	19.58
2018	3.47	0.88	0.72	-1.68	-1.86	0.09	0.03	0.66	1.24	-0.18	-2.61	-0.50	0.12
2019	-1.33	0.20	-0.21	-0.95									-2.28

THEME RETURN & EXPOSURE

SECTOR RETURN & EXPOSURE

NET AND GROSS HISTORICAL EXPOSURE
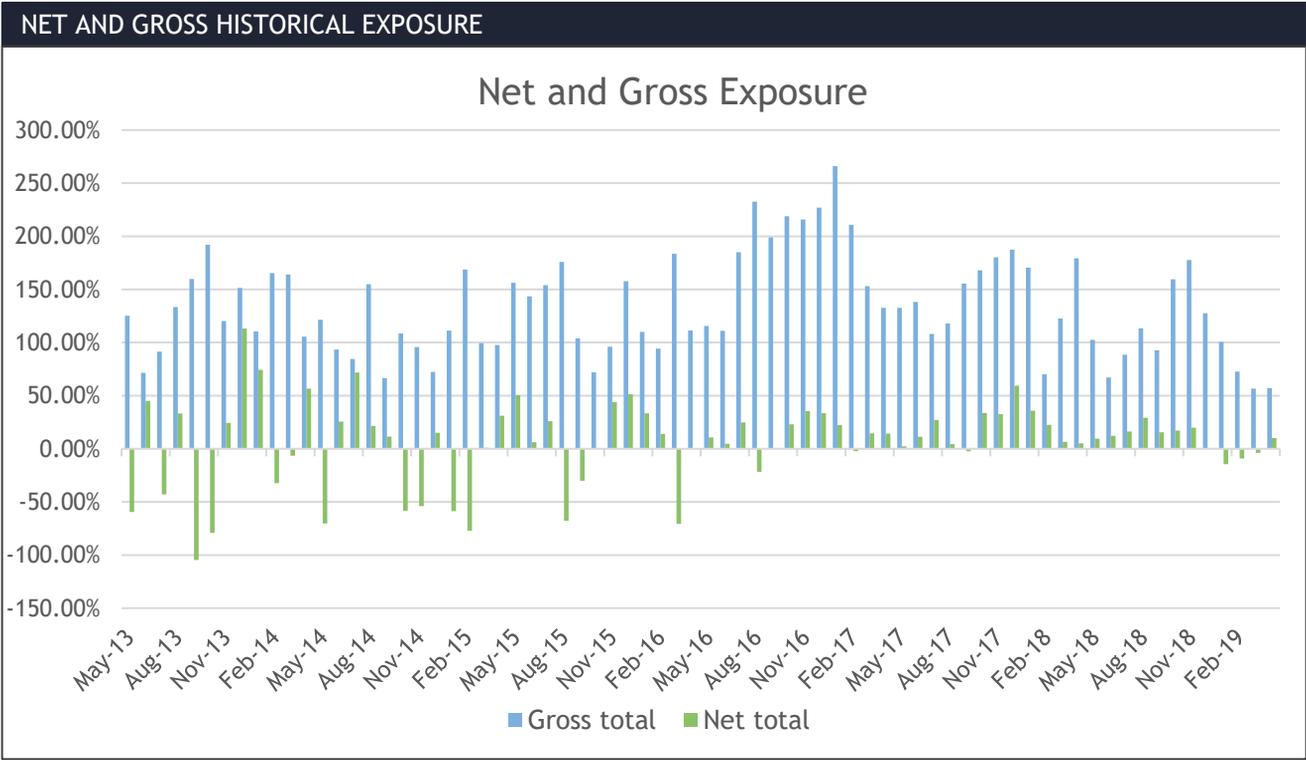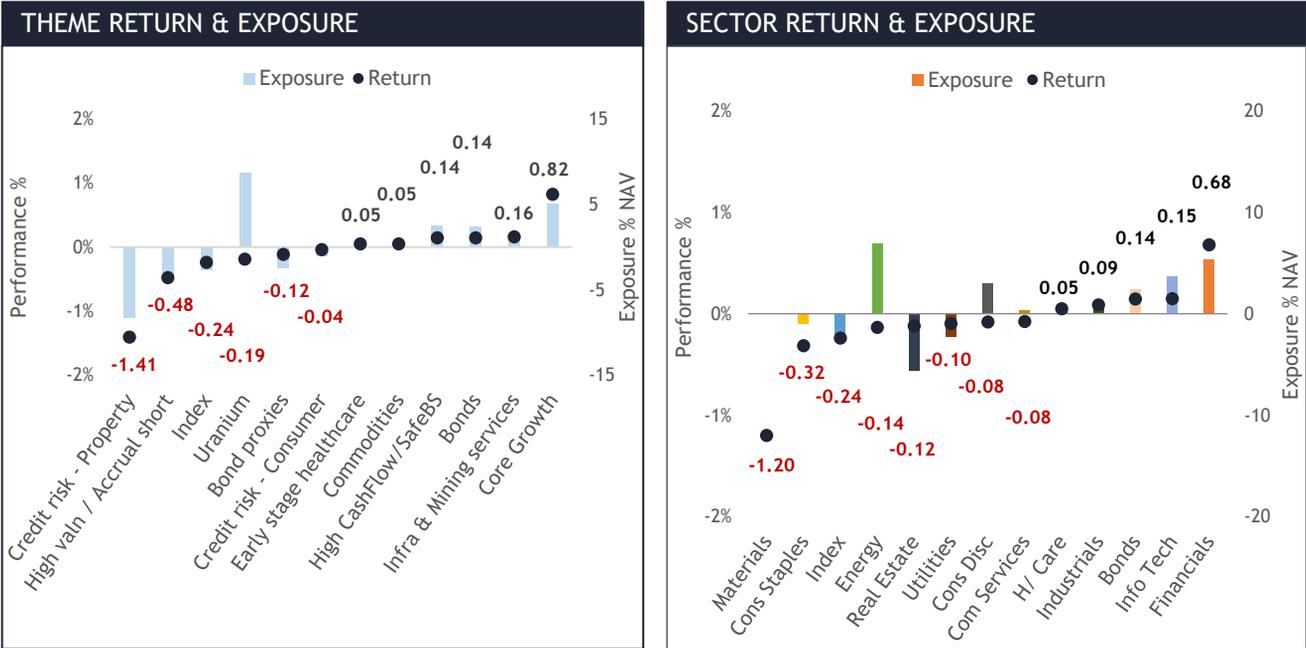
STRATEGY SUMMARY

The investment process involves three stages:
1. Themes are identified as investment opportunities
2. Valuation screens are run to find stock opportunities within the theme
3. Market dynamics are assessed to determine entry timing

The strategy is long / short equity with a variable delta bias. The universe is global equities with a focus on Australia. The portfolio will typically contain 40 to 70 position. Global futures and options are also actively traded from time to time.

The strategy aims to identify trends and opportunities using value investing principles and capture price oscillations around the underlying trend using trading skills.

FUND INFORMATION

BASE CURRENCY	AUD	ARNOTT CAPITAL PTY LTD	AFSL License 233743 ABN 23086081889
STRATEGY INCEPTION	1999	CIO KENNY ARNOTT	kma@arnott.com.au
MINIMUM SUBSCRIPTIONS	AUD $100,000	CONTACT DETAILS	investor@arnott.com.au
WITHDRAWALS	Monthly	PRIME BROKER	Morgan Stanley
PERFORMANCE FEE	25%	FUND ADMINISTRATOR	Mainstream
MANAGEMENT FEE	0%	FUND AUDITOR	Ernst and Young
SUBSCRIPTIONS	Monthly	LEGAL ADVISORS	Norton Rose Fulbright